



Government
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du Canada

A NEW POLICY FRAMEWORK FOR THE CANADIAN SHIPBUILDING AND INDUSTRIAL MARINE INDUSTRY



FOCUSING ON OPPORTUNITIES



2001



Canada

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FOR THE CANADIAN SHIPBUILDING
AND INDUSTRIAL MARINE INDUSTRY

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MINISTER'S MESSAGE

In October 2000, at the National Shipbuilding Forum in St. John's, Newfoundland, the shipbuilding community clearly expressed a desire for actions to address the problems of the industry. Problems stemming from a lack of investment and innovation, business practices that hurt productivity, lack of financing support, and the limits of the federal procurement budget.

They identified a second and very substantial set of problems, born of the unique and difficult international competitive environment. In global and domestic markets, Canada's shipbuilders systematically encounter competitors benefiting from production subsidies, generous financing, market protection, state ownership and, in Canada's largest potential market, the United States, the *Jones Act* excludes them from large parts of the commercial market.

These business factors are difficult for a country with a proud shipbuilding tradition. That is why I launched a new process, the National Shipbuilding and Industrial Marine Partnership Project. I mandated the four co-Chairs to take an independent, fresh look at the opportunities and the challenges.

I asked them to do two things: first, to conduct a national, comprehensive consultation that was supported, but not directed, by government.

Second, I wanted proposals that would be reasonable and workable. I was explicit with the co-Chairs, from the beginning and throughout the process, that I was not interested in production subsidies or in increasing protection for the industry. Our focus had to be on innovation, investment and opportunity.

This places the premium on working within existing policies and programs of the government. It includes our current policy support for shipbuilding, to see if its measures are effective. It includes the need for all stakeholders — not just the federal government — to come to the table. It has to include measures by the industry itself — the owners and the workers — to address their own competitive forces and become more focused on market opportunities.

Those were my expectations for the Partnership Project. What came back — after several public roundtables, discussions with dozens of interested parties, as well as written and oral submissions — were thirty-six recommendations that were presented to the government on April 5, 2001.

I said at the time that we would give serious consideration to each and every recommendation. Our test would be whether the proposals were reasonable, workable and affordable. I said we would accept what we could; modify them if

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appropriate, add other measures if warranted, and reject some if necessary and give the reasons why.

In this report, the government is unveiling a new shipbuilding and industrial marine policy framework. This policy focuses on opportunity, growth and innovation in niche markets where Canada can compete. It recognizes the value of marine transportation as an important industrial infrastructure, with environmental as well as economic benefits. And it focuses on partnerships, as it is only by working together that we can succeed.

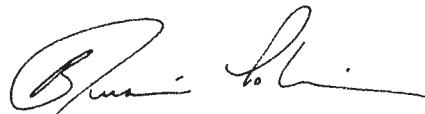
We have worked hard to develop a policy that is positive and that balances the interests of all the parties: shipbuilders and their workers, ship operators and their customers, policies that apply to other industrial sectors and, of course, financial considerations. While the need for balance might not fully please some interests, the result is a future-oriented policy providing new opportunity to the industry. With this policy, we are raising the shipbuilding and industrial marine industry to a new level within government. It is realistic, it is market-oriented, and it is fair.

The starting point is the current shipbuilding policy, which includes a 25 percent tariff for several classes of vessels, accelerated tax write-offs for owner-operators; and a Buy Canada policy for competitive federal procurements. On this last point, we have not concluded our deliberations; we will study the task force recommendations and federal procurement plans in more detail before concluding.

This new policy comprises some two dozen measures focused on the commercial market, falling into five categories: capturing domestic opportunities, looking globally, innovation as key to competitiveness, financing and stronger partnerships. These measures are outlined in more detail in this report. It also includes a response to each of the Partnership's recommendations.

This is the policy framework that the government is putting in place. We expect it to be effective, and we will reassess it in five years. We will work aggressively to implement it quickly. It will give the industry, and our partners, a viable set of federal policies that are positive, forward-looking and balanced.

I want to take this opportunity to thank the many individuals and organizations who have voluntarily contributed to this work. Particularly, I want to express the gratitude of the government for the work of the Partnership co-Chairs: Les Holloway, Peter Woodward, Peter Cairns and Philippe Tremblay, who gave immensely and voluntarily of their own time. They have literally gone coast-to-coast to reach out to industry stakeholders. It is through these collective efforts that we were presented a tool kit for developing a new policy in a relatively short time. It is now up to all stakeholders to make it work.



Brian Tobin
Minister of Industry

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INDUSTRY OVERVIEW

The Canadian shipbuilding and industrial marine industry is diversified in its product and market focus. It includes firms with specialized capabilities in manufacturing and repairing ships, building oil and gas rigs, and supplying related equipment, technologies and services.

The Canadian shipbuilding and repair industry consists of shipyards located in several parts of Canada, capable of building a wide range of vessels of up to 85 000 deadweight tons (DWT). The shipbuilding and repair industry is in a strategic position to capture upcoming opportunities. Canadian shipyards have built ferries, fishing vessels, offshore supply vessels, tankers, cargo ships and offshore drilling platforms. They have designed and produced sophisticated naval ships and icebreakers. They are successfully building luxury yachts for the world market and have carved out a niche in ship repair and overhaul. To do so, they have had to innovate, invest in modern technology and manufacturing processes and now produce high-quality products for sophisticated buyers, competitively and on time.

As the shipbuilding and industrial marine industry moves toward higher value and more sophisticated segments of the market, the quality of the equipment that goes into a new vessel is increasingly important. Offshore oil platforms require tremendous technological resources and expertise for their conceptual design, construction and operation. They are part of complex, high-tech and high-value-added projects involving all segments of the industry. As a result, the shipbuilding and industrial marine industry generates a considerable demand for electronic navigational devices, communication equipment, radar and sonar, marine robotics, sub-sea vehicles, imaging equipment and marine applications programming. The equipment manufacturers are an integral and essential part of the industrial marine sector and ensure its competitiveness.

Annex B provides a statistical overview of the shipbuilding and repair industry.

A diversified industry with facilities in many parts of Canada

Canadian shipyards develop value-added goods and services, including for the offshore

THE PARTNERSHIP PROJECT

On October 20, 2000, the Minister of Industry established an industry-led National Shipbuilding and Industrial Marine Partnership Project. An industry-labour Project Committee, consisting of four industry-labour co-Chairs, was tasked with consulting widely with industry stakeholders across Canada to develop reasonable and workable measures to improve the competitiveness of Canada's shipbuilding and industrial marine industry and to capture opportunities for growth.

The Committee conducted public consultations across Canada. A large number of people attended the sessions, and close to 80 presentations or submissions were made.

On April 5, 2001, the Committee released its report titled "Breaking Through: The Canadian Shipbuilding Industry." The report detailed the capabilities of the Canadian shipyards, future prospects for these yards, and the domestic and international issues affecting the industry's

future. It highlighted the growing opportunities from the projected growth in the offshore oil and gas fields. These are projects that also draw on the facilities and skills of the shipbuilding industry. The report included 36 recommendations for consideration by all stakeholders: the federal government, provincial governments, business and labour. The recommendations reflect the concerns and proposals of industry stakeholders including shipyards, organized labour, associations, marine shippers, and provincial and municipal governments.

Many of the recommendations were directed to the federal government. As the report noted, many federal departments and agencies are responsible for policies and programs with a direct impact on the shipbuilding and industrial marine industry. The following sections discuss the federal government's perspective on the issues raised, and outline a new shipbuilding and industrial marine policy framework.

The National Partnership Project

committee consulted stakeholders

across Canada

THE CHALLENGES AND THE OPPORTUNITIES

This section of the report provides an overview of the challenges and opportunities facing this industry in five key areas:

- capturing domestic opportunities
- looking globally
- innovation as key to competitiveness
- financing
- stronger partnerships.

The policy elements being put in place by the government to support each area are outlined below, together with an explanation of how they respond to the challenges identified by the industry as reflected in the Partnership Project report.

Capturing Domestic Opportunities

There are a number of markets in Canada and abroad that can provide significant opportunities for the Canadian shipbuilding and industrial marine industry. Examples include the replacement and modernization of the Great Lakes fleet, select export opportunities, the repair market for cruise ships, and the growing global need for floating industrial plants and power generation capability. The industry has also identified a potential requirement to replace Canadian fishing vessels if the Fishing Vessel Replacement regulations were to change. All these provide opportunities that the industry can actively explore.

Canada's offshore oil and gas industry, which has grown considerably since early exploration activities began off the coasts of Newfoundland and Nova Scotia in the 1960s, is generating an increasing demand for vessels of all types, for equipment related to both exploration and development and for services.

The offshore offers significant new future demand. By 2012, seven or eight projects are expected to be in operation in Atlantic Canada, and oil and gas production is expected to be about 300 000 barrels of oil per day. Some industry estimates are higher at approximately 500 000 barrels of oil per day — equivalent to 40 percent of Canada's current light crude oil production. Only two

Significant growth opportunities exist

in niche markets and the offshore

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projects — the Hibernia oil project off Newfoundland and the Sable Island natural gas project off Nova Scotia — are now in the production phase.

Off Newfoundland, the Terra Nova oil field is expected to begin production in early 2002, and the White Rose oil field is expected to begin production in 2004. These projects will likely use floating production storage and offloading (FPSO) systems for recovering crude oil. Additional projects are under consideration, and some in the industry predict that a new oil project will come on stream every two or three years. Fabrication and installation of modules and components for FPSO systems are expected to continue to provide opportunities for Canadian companies.

To capture the benefits of all this activity, the industry will have to aggressively market its current capabilities. It will also have to increase its capability to produce the type of equipment that is required by either developing the required technologies or acquiring them through arrangements with suppliers in other countries. The government will facilitate access to existing technology support measures to assist the industry to develop new capabilities and will work in partnership with the provinces, the energy sector and other stakeholders to increase industrial benefits from the offshore. It will also actively work with the industry to pursue complementary international investment and partnerships to expand Canadian industrial capability in this area.

Government procurement is viewed as a major opportunity by the industry. The Buy Canada policy ensures that the benefits of federal procurement of vessels and repairs flow to Canadian industry on a competitive basis. Repairs and overhauls have and will continue to provide a steady stream of work to Canadian yards.

Federal procurement of new vessels has been a mainstay of several yards in the past but those vessels are now completed. The Committee recommended that the government eliminate the peaks and valleys of procurement to provide a steady stream of work to the yards. Procurement is an important but complex issue and will be further considered by the government in the context of the Committee's recommendations.

Capturing Domestic Opportunities — Policy Elements

Increase efforts to secure Canadian industrial benefits from the development of offshore oil and gas, in partnership with the industry, provinces and other stakeholders.

Promote complementary investment in oil and gas technologies to strengthen Canadian capability to respond to offshore opportunities.

Review need to maintain the current restriction on fishing vessel length as part of the Atlantic Fisheries Policy Review, by the end of 2001.

Maintain the current Buy Canada policy on a competitive basis and review federal procurement prospects in more detail.

FOCUSING ON OPPORTUNITIES

Looking Globally

Although the global market is highly competitive, there are opportunities that the industry can pursue. In fact, Canadian yards have succeeded in capturing export business in various niches such as tugs and patrol vessels.

The government is prepared to work with the industry to pursue additional export opportunities. Under the auspices of Team Canada Inc, the government will take a proactive approach by bringing the stakeholders in the shipbuilding and industrial marine industry together to develop an international trade promotion strategy. This approach is taken in other key industrial sectors. Activities and analyses could focus on the development of targeted market strategies, production of industry capability information, better use of trade promotion instruments, and participation in fairs and missions.

Canada currently applies a 25 percent Most-Favoured-Nation (MFN) unbound tariff on most non-NAFTA imported vessels, which provides the Canadian shipbuilding industry with protection from imported foreign vessels, many of which benefit from extensive government support. The main exception to this rate are fishing vessels over 30.5 metres, which do not have any duty applied when they are imported into Canada. Canada encounters and will continue to encounter pressure to reduce or eliminate vessel tariffs in the context of international trade negotiations. The government will not, as proposed, raise shipbuilding tariffs. This would have negative impacts on producers and consumers and would run counter to existing international trade obligations.

However, any reduction of the tariff would not be undertaken until the government is satisfied that the impact of distortive foreign trade practices on the domestic industry is addressed.

Foreign vessels or floating equipment may be imported temporarily at a reduced rate of duty in situations where Canadian vessels are not available for particular coasting activities. Each request for duty relief is reviewed with key stakeholders and their comments are taken into account in the final decision. Even though very few imported vessels stay in Canada for a significant length of time, there is a perception that a large number of vessels are imported and stay in Canada for an extended period without paying any duty. To address this concern, the government will introduce new procedures for vessels that use the temporary provisions on a repeated basis. This will ensure that the temporary importation procedures are not abused.

Global trade in this sector is distorted by a variety of measures including subsidies, border measures and procurement preferences. In the United States for example, the *Jones Act* effectively closes the domestic market to foreign-built vessels.

With respect to subsidies, the government will continue to work within the World Trade Organization (WTO) to seek new disciplines on the use of subsidies to provide a more competitive environment for this and other Canadian industries. Canada will not limit its efforts to the WTO. For example, the government has stepped up Canada's participation in Organization for Economic Cooperation and

**Canadian yards have captured
niche export market opportunities**

**A variety of global trade restrictions
limit access by Canadian yards to
foreign markets**

**Canada will work to
reduce global subsidies**

**Innovation is key to
future competitiveness**

Development (OECD) discussions on developments and difficulties in global shipbuilding.

Additionally, the government and Export Development Corporation (EDC) will continue to take an active role in shaping the development of international disciplines on export credits to ensure that exporters compete on a level playing field. In negotiations at the OECD on export credits related to the shipbuilding sector, the government is endorsing more flexibility, including floating interest rates and market practices.

Looking Globally — Policy Elements

Promote shipbuilding and industrial marine exports within the framework of Team Canada Inc.

Enhance efforts at the WTO and the OECD to reduce trade-distorting practices.

Continue to consult with the industry during the negotiation of any trade agreements where the inclusion of shipbuilding and industrial marine products is proposed.

Maintain current tariff regime until the government is satisfied that the impact of distortive foreign trade practices on the domestic industry is addressed.

Review all requests for extensions for temporary vessel imports beyond three years.

**The government will facilitate
access to R&D programs**

Innovation as Key to Competitiveness

Innovation is essential to realizing opportunities in the shipbuilding and industrial marine industry as in any industrial sector. An innovative industry is driven by research and development. It requires a highly skilled work force and investments in new technology. The government is prepared to work with this industry to encourage the development of innovative products and processes and to provide appropriate training. A number of federal programs and services support innovation and the government is prepared to help the industry access these. However, the industry has to take the initiative to identify innovative projects and processes that can help capture the opportunities that have been identified.

The following is a brief summary of some of the programs available to industries, including the shipbuilding and industrial marine industry. In each case, the government will take extra steps to work with the industry to facilitate access.

- *Scientific Research and Experimental Development Tax Credit (SR&ED)*: The SR&ED tax credit program provides tax credits to businesses that conduct SR&ED in Canada. The Canada Customs and Revenue Agency (CCRA), which administers this program, will establish an industry committee to clarify how the SR&ED can be used to greater effect by the shipbuilding and industrial marine industry. CCRA will also publish an industry-specific SR&ED information bulletin and identify corporate liaison officers.
- *Technology Partnerships Canada (TPC)*: TPC contributes to Canada's economic growth by investing

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strategically in research, development and innovation as a risk and reward-sharing partner with industry. To facilitate access by the shipbuilding and industrial marine industry, Industry Canada and the National Research Council will work with industry stakeholders to develop a Technology Road Map, which will identify those technologies that would be eligible for support under TPC. By promoting TPC more actively to the industry, the goal will be to increase investment in a broad range of industrial research and pre-competitive development technologies that will increase competitiveness.

- *The Industrial Research Assistance Program (IRAP)*: IRAP, administered by the National Research Council, assists small and medium-sized enterprises through financial contributions of up to 50 percent of eligible costs to a maximum of \$350 000. IRAP's network of 260 technical advisors located throughout Canada will work with small and medium-sized firms in this industry to provide expert advice on specific technological issues and facilitate the use of the IRAP.
- *The National Research Council's Institute for Marine Dynamics (IMD)*: The Institute for Marine Dynamics, established in St. John's in 1985, is Canada's primary centre for ocean technology research and development. The National Research Council plans to invest further in the IMD to stimulate the growth of an ocean technology cluster. An expanded research program and an industrial incubator will be two elements of this investment. The incubator program will be aimed at retaining young people in Newfoundland.

- *Student Connection Program*: Through its Student Connection Program, Industry Canada is prepared to assist small and medium-sized enterprises to maximize the use of the Internet and to apply information technology to improve competitiveness while allowing students to gain valuable on-the-job work experience. This is an important element of the federal "Connecting Canadians" initiative.

An innovative shipbuilding and industrial marine industry also needs a highly skilled work force. Building and maintaining such a work force requires a high degree of cooperation among management, labour, training institutions, the provinces and the federal government.

The Committee has identified training as a critical issue for this industry to help workers learn how to operate new tools and equipment and to introduce the latest information technologies to the work place. Training in many of these areas is already in place but there is an opportunity to better define the needs and review what is currently being offered to ensure that the needs of workers and industry are being met.

The federal government, through Human Resources Development Canada, will assist the industry (union, management, associations) in a diagnostic of the human resources situation including an assessment of skills needed and training requirements. This will be accomplished through a human resources sector study. Based on the results of the study, the type of skills and training required will be articulated and a body such as a national sector council could be established to deliver on the recommendations

An innovative shipbuilding and industrial marine industry requires a highly skilled work force

Training is a critical issue for this industry

Stakeholders must develop suitable training tools to provide workers with appropriate skills

arrived at through this process. The provinces will play a leading role in both the identification and delivery of training requirements.

Innovation as Key to Competitiveness — Policy Elements

Develop guidelines for the application of Scientific Research and Experimental Development tax credits to the shipbuilding and industrial marine industry.

Facilitate access to Technology Partnerships Canada (TPC) for the development of innovative technologies.

Develop a Technology Road Map to help identify technologies that could be supported by TPC.

Assist small and medium-sized enterprises through the Industrial Research Assistance Program, e.g., to introduce best practices to improve productivity and competitiveness.

Invest in the Institute for Marine Dynamics to support ocean engineering research.

Assist small and medium-sized enterprises to maximize the use of the Internet through the Student Connection Program.

Undertake a human resources sector study and, based on the results, establish a sector council that will assess skill and training requirements and will work with stakeholders to implement the recommendations.

Financing

As with any industry, financing is fundamental to competitiveness in the market, a point recognized in existing tax policy, which provides an accelerated rate of depreciation for purchasers of new Canadian-built vessels. This helps counter the more extensive support offered by competitors. However, the use of this measure is limited to situations where owner-operators of Canadian-built vessels have sufficient taxable income to claim an accelerated capital cost allowance. Its use in leasing transactions, an increasingly popular method of financing sales of ships in global as well as Canadian markets, is limited.

The Committee proposed a modification to the tax regulations that would permit the use of specific tax provisions in situations where Canadian vessels are sold to leasing companies rather than operators. It also had proposals regarding the non-resident withholding tax. The government recognizes that the existing tax measure cannot be used effectively in such situations. However, the proposed solution is inconsistent with broader tax policy considerations.

To provide an equivalent benefit to purchasers of Canadian-built ships in such circumstances, including Canadian and foreign buyers/lessees, a new flexible Structured Financing Facility will be introduced as an alternative to the accelerated capital cost allowance provision. This will be a new market-based tool, administered by Industry Canada, that will provide financing that is competitive with that offered by other countries.

A new Structured Financing Facility will be introduced

Major shipbuilding countries provide export financing to their shipbuilding industry. Many countries provide financing within OECD guidelines but there are some exceptions; for example, the United States, which often exceeds the OECD terms. Export Development Corporation (EDC) has been successfully working with the shipbuilding industry to promote exports. EDC offers direct financing on terms commensurate with OECD guidelines. For transactions that EDC cannot support directly, support can be considered on a case-by-case basis under the Canada Account.

It is important to recognize that export financing is not the only factor that a potential purchaser considers in determining where to purchase a new vessel. Criteria such as price, quality, delivery times, technology, competitiveness and productivity are additional key factors affecting purchasing decisions.

Financing — Policy Elements

Maintain the current accelerated capital cost allowance for purchasers of Canadian-built vessels registered in Canada.

Introduce a Structured Financing Facility, under Industry Canada, to provide competitive financing to purchasers of Canadian-built vessels who cannot utilize the current accelerated capital cost allowance.

Continue to provide competitive, non-concessionary export financing through EDC.

Consider use of the Canada Account for non-concessionary export financing on a case-by-case basis.

Stronger Partnerships

The Committee has made clear that there is a real requirement for a new, ongoing process to encourage regular dialogue among stakeholders and government on the issues and the challenges facing this sector. The government agrees. To encourage such dialogue and thereby continue to work with stakeholders, the Minister of Industry will establish an advisory committee to advise on issues affecting the competitiveness and prospects of the industry, including the impact of the new shipbuilding and industrial marine policy framework. The Minister will also organize an annual forum of key stakeholders.

The Export Development Corporation

is working with the industry to

promote exports

Stakeholders must work together to

deal with the issues and capture the

opportunities

To bolster the government's commitment to working with the industry, Industry Canada will establish a new unit in the department whose mandate will be to work with the shipbuilding and industrial marine industry and other stakeholders on a continuous basis. This organization will work to ensure effective implementation of this policy framework. It will also review the effectiveness of the new federal policy after five years.

Stronger Partnerships — Policy Elements

Establish an industry advisory committee or other consultative process to assist in implementing the new policy framework and continue to advise on issues affecting the competitiveness of the industry.

Minister of Industry to organize annual stakeholders' forum.

Industry Canada to create a new energy and marine organization to work with stakeholders on:

- increasing offshore benefits
- promoting trade and investment
- developing a Technology Road Map
- supporting international discussions at the OECD, WTO, etc.
- providing advice on requests for duty remission
- coordinating the implementation of the new policy framework
- supporting stakeholder consultations
- developing a strong analytical base to support the above initiatives.

Review policy framework in five years.

A NEW SHIPBUILDING AND INDUSTRIAL MARINE POLICY FRAMEWORK

Capturing Domestic Opportunities — Policy Elements

Increase efforts to secure Canadian industrial benefits from the development of offshore oil and gas, in partnership with the industry, the provinces and other stakeholders.

Promote complementary investment in oil and gas technologies to strengthen Canadian capability to respond to offshore opportunities.

Review need to maintain the current restriction on fishing vessel length as part of the Atlantic Fisheries Policy Review, by the end of 2001.

Maintain the current Buy in Canada policy on a competitive basis and review federal procurement prospects in more detail.

Looking Globally — Policy Elements

Promote shipbuilding and industrial marine exports within the framework of Team Canada Inc.

Enhance efforts at the WTO and the OECD to reduce trade-distorting practices.

Continue to consult with the industry during the negotiation of any trade agreements where the inclusion of shipbuilding and industrial marine products is proposed.

Maintain current tariff regime until the government is satisfied that the impact of distortive foreign trade practices on the domestic industry is addressed.

Review all requests for extensions for temporary vessel imports beyond three years.

Innovation as Key to Competitiveness — Policy Elements

Develop guidelines for the application of Scientific Research and Experimental Development tax credits to the shipbuilding and industrial marine sector.

Facilitate access to Technology Partnerships Canada (TPC) for the development of innovative technologies.

Develop a Technology Road Map to help identify technologies that could be supported by TPC.

Assist small and medium-sized enterprises through the Industrial Research Assistance Program, e.g., to introduce best practices to improve productivity and competitiveness.

Invest in the Institute for Marine Dynamics to support ocean engineering research.

FOCUSING ON OPPORTUNITIES

Assist small and medium-sized enterprises to maximize the use of the Internet through the Student Connection Program.

Undertake a human resource sector study and, based on the results, establish a sector council that will assess skill and training requirements and will work with stakeholders to implement the recommendations.

Financing — Policy Elements

Maintain the current accelerated capital cost allowance for purchasers of Canadian-built vessels registered in Canada.

Introduce a Structured Financing Facility, under Industry Canada, to provide competitive financing to purchasers of Canadian-built vessels who cannot utilize the current accelerated capital cost allowance.

Continue to provide competitive, non-concessionary export financing through EDC.

Consider use of the Canada Account for non-concessionary export financing on a case-by-case basis.

Stronger Partnerships — Policy Elements

Establish an industry advisory committee or other consultative process to assist in implementing the new policy framework and continue to advise on issues affecting the competitiveness of the industry.

Minister of Industry to organize annual stakeholders' forum.

Industry Canada to create a new energy and marine organization to work with stakeholders on:

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- supporting stakeholder consultations
- developing a strong analytical base to support the above initiatives.

Review policy framework in five years.

ANNEX A:
FEDERAL RESPONSES TO
PARTNERSHIP RECOMMENDATIONS

CAPTURING DOMESTIC OPPORTUNITIES

OFFSHORE OPPORTUNITIES

That the Government of Canada, working with the provinces and industry, find ways to optimize Canadian industrial benefits through partnerships with foreign companies that are harvesting Canadian marine and offshore resources.

That the various participants in the industrial marine and shipbuilding sector combine forces and undertake initiatives to clearly demonstrate their capabilities and competitiveness to the oil and gas industry and to provincial and federal government officials.

That industry presents a comprehensive plan to federal and provincial governments as to the role governments can play in optimizing economic benefits to the industry.

FEDERAL GOVERNMENT COMMENTS

A number of mechanisms already exist to evaluate industrial benefits from the offshore. To complement these, Industry Canada will create a new energy and marine organization to work with stakeholders on increasing offshore benefits.

The government will continue to play an active role in ensuring that Canada benefits from development of offshore oil and gas projects by working with the provinces, the boards and other stakeholders. Support to the industry already covers a broad spectrum, from investments in community physical infrastructure to assistance to small and medium-sized enterprises in the supply sector. The government will also work with the shipbuilding and industrial marine industry to showcase its capability to potential customers and will promote international investment and strategic partnerships.

Through the advisory committee and the new organization, industry and government can work together to develop a comprehensive plan to increase economic benefits from the offshore.

ENVIRONMENT

That the provincial and federal governments focus on marine transportation as a more environmentally friendly alternative to other modes of transport.

FEDERAL GOVERNMENT COMMENTS

Marine transportation, as an environmentally friendly mode of transport, can complement Canada's environmental objectives. The marine mode is widely recognized as having environmental benefits in terms of lower emissions and fuel efficiency in many circumstances.

INDUSTRY PROMOTION

That the federal government formally recognize the national strategic importance of the shipbuilding and industrial marine sector.

The Canadian shipbuilding and industrial marine industry is recognized by the government as an important contributor to national and regional economies. In addition, a viable and competitive domestic ship maintenance and repair capability is important to Canadian government operational needs. The new policy framework recognizes the importance of the industry and the desirability of working together to focus on the opportunities that have been identified.

FEDERAL GOVERNMENT
COMMENTS

That the Department of Fisheries and Oceans (DFO) review the licensing of vessels currently restricted to 19.8 metres (65 feet) to allow them to be replaced or converted to a vessel length of less than 25.9 metres (85 feet).

VESSEL REGULATION

Vessel replacement is a complex matter that needs to be reviewed in the context of safety, reliability and fisheries management and resource conservation considerations. The Atlantic Fisheries Policy Review, announced by the Minister of Fisheries and Oceans on February 7, 2001, will be completed by the end of 2001. The vessel replacement guidelines will be considered explicitly within that review.

FEDERAL GOVERNMENT
COMMENTS

That the Government of Canada re-commit to the policy of procuring, refitting and overhauling in Canada.

PROCUREMENT

That the Government of Canada bring the impact of accrual accounting to bear on long-term vessel planning and management in the federal government as a means to assisting in making cost-effective decisions in vessel acquisition and management over the longer term.

That the Government of Canada eliminates the peaks and valleys of procurement for the Navy and the Coast Guard through more effective forward planning and thereby keeps order books and employment levels more consistent over the longer term.

The federal government will continue to procure, repair and refit vessels in Canada subject to operational requirements and the continued existence of a competitive domestic marketplace.

FEDERAL GOVERNMENT
COMMENTS

The government will factor the financial information arising from the practice of accrual accounting into its procurement planning and decision-making process. This will provide a better appreciation as to the rate at which assets are being consumed in producing outputs and hence better support long range planning.

Procurement is an important but complex issue and will be reviewed by the government. This review, which will address the Committee's recommendations and related issues, will be completed by the fall of 2001.

GLOBAL SUBSIDIES

That the Government of Canada presses for the elimination of subsidies to the worldwide shipbuilding industry.

FEDERAL GOVERNMENT
COMMENTS

The government continues to seek improved subsidy disciplines in the WTO, and where possible, in other multilateral fora, to provide a more competitive environment for this industry and other industries.

In the short to medium term, Canada is preparing for the next WTO Ministerial Conference in November 2001, at which new multilateral trade negotiations may be initiated. Canada has stated publicly already that one of its objectives for new multilateral trade negotiations under the WTO is to address the issue of subsidy practices that affect shipbuilding within a general subsidies negotiation. The government will work with the shipbuilding industry to develop Canada's approach to the negotiation of improved subsidy disciplines.

Canada is not limiting its efforts to the WTO. The government has recently stepped up Canada's participation in the OECD and is promoting greater flexibility in financing terms.

JONES ACT

That the Government of Canada press the United States for amendments to the Jones Act to allow for greater participation of Canadian shipyards.

FEDERAL GOVERNMENT
COMMENTS

Canada and other countries have repeatedly sought the reduction of Jones Act protectionism. The Canadian government continues to be ready to explore any bilateral or multilateral route to reduce or eliminate this barrier to market access.

TARIFFS

That the Government of Canada resist any requests from other countries to change provisions of the Canadian Shipbuilding Policy until such time as the Canadian industry has been able to overcome the long-term effects of the subsidy and unfair pricing policies of other countries.

FEDERAL GOVERNMENT
COMMENTS

While all industrial sectors are considered in trade negotiations, a fundamental principle that guides Canadian trade negotiators is that no tariff is eliminated without consultation with stakeholders and, where necessary, without consideration of a transition period negotiated between the parties to facilitate domestic industry's adjustment.

That the Government of Canada removes the exception to the 25 percent tariff on fishing vessels over 30.5 metres (100 feet).

TARIFFS

The duty-free Most-Favoured-Nation (MFN) tariff on fishing vessels over 30.5 metres (100 feet) was “bound” by Canada during the Uruguay Round. This means that a free rate of duty is the highest tariff that may be applied by Canada with respect to importations of such vessels. Increasing the tariff on these vessels would violate Canada’s MFN obligations under the WTO. It would also increase the operators’ costs and therefore impact consumers. Consequently, the government will continue to honour its commitments and not increase this tariff.

FEDERAL GOVERNMENT
COMMENTS

That the Government of Canada examine the possibility of increasing the 25 percent tariff against countries that provide subsidies in excess of 20 percent.

TARIFFS

Increasing the tariff would violate Canada’s MFN obligations under the WTO. Furthermore, the imposition of higher import duties by Canada is unlikely to affect the subsidy practices of other countries.

FEDERAL GOVERNMENT
COMMENTS

That the Government of Canada adjust the rate that allows foreign flagged vessels to operate temporarily in Canadian waters from 1/120th to 1/60th, and reduce the allowable period from ten years to five years.

DUTY REMISSION

The 1/120th program is intended to provide a reduction in duty costs in those cases where Canadian vessels are not available for particular coasting activities and foreign vessels or floating equipment are allowed to engage temporarily in such activities. Typically, these are one-off activities, not exceeding 12 months in duration, and are few in number.

FEDERAL GOVERNMENT
COMMENTS

The government, in consultation with stakeholders, will review and closely monitor any applications for extensions for temporary vessels imports beyond three years to ensure that the temporary entry provisions are not being abused.

DUTY REMISSION

That the Government of Canada stop duty remissions on the various topside modules and sub-sea components that are imported into Canada and can be supplied from Canadian sources, and incorporate a base rate consistent with that applied to most imported vessels; that is, 25 percent.

FEDERAL GOVERNMENT
COMMENTS

The vast majority of these goods enter under existing bound tariff items in the customs tariff and not by means of special duty remission orders. Increasing the tariff on topside modules and sub-sea components would involve renegotiations under the WTO and would require Canada to pay compensation to affected trading partners or face retaliation. Consequently, the existing tariffs will not be increased.

That the Government of Canada enhance eligibility of the shipbuilding industry to participate in program areas that the federal government has identified as a leading priority, namely technological innovation. Ministerial direction should be given to sponsors of the existing programs to meet with industry and make recommendations on how present research and development programs should be modified.

Innovation is a key priority for the government. The shipbuilding industry has to innovate in order to capture the opportunities that have been identified. The government has a number of programs that encourage innovation and is prepared to work with this industry to encourage the development of innovative products and processes.

The government will actively promote and facilitate access by the shipbuilding and industrial marine industry to Technology Partnerships Canada (TPC). In addition, the National Research Council and Industry Canada will work with the industry to develop a Shipbuilding and Industrial Marine Technologies Road Map to help identify technologies needed in marine and ocean activities including the offshore industry, ocean technologies and ship design and construction. The results of this analysis will identify technologies that could be developed in Canada, possibly with TPC assistance.

The National Research Council, through the Institute for Marine Dynamics, will make additional investments in the growth of an ocean technology cluster and support ocean engineering research. The National Research Council and Industry Canada can also provide innovation assistance to small and medium-sized firms in the sector through the Industrial Research Assistance Program (IRAP).

The scientific and experimental development tax credit program is available to the shipbuilding industry. The Canada Customs and Revenue Agency (CCRA) will work with the industry to clarify how it might apply to R&D projects carried out by companies in this sector.

TRAINING

That provincial governments take a strong lead in the areas of training for which they have responsibility.

That Human Resources Development Canada clearly state those areas where it can give advice and assistance.

That the industry work with Human Resources Development Canada to establish a sector council to look at skill needs and training requirements of the industry on a continuing basis.

FEDERAL GOVERNMENT
COMMENTS

The federal government, through Human Resources Development Canada, will assist the industry (union, management, associations) in a diagnostic of the human resources situation including an assessment of skills needed and training requirements. This will be accomplished through a human resources sector study. Based on the results of the study, the type of skills and training required will be articulated and a body such as a national sector council could be established to implement the recommendations arrived at through this process. The provinces will play a lead role in both the identification and delivery of any training requirements.

That the Government of Canada agree to remove the restriction in the existing policy that stipulates that the accelerated Capital Cost Allowance (CCA) can only be used by Canadian owners/operators and allow it to be used by either Canadian owners or Canadian operators; this will put the accelerated CCA in the hands of more investors who can use it and stimulate the purchase of new builds in Canada.

That the Government of Canada include ships as an exemption under subsection 1100 (1.1 and 1.2) of the Income Tax Act so that the benefits of an accelerated CCA can be passed along to Canadian operators through bareboating arrangements as it is through leasing arrangements with its direct competitors; trucks and railway cars.

That the Government of Canada include ships as an exemption under the appropriate subsection of the Income Tax Act so that any lease payments made to U.S. lessors would be exempt from withholding tax.

The government recognizes the importance of these proposals and the potential impact on the competitiveness of the shipbuilding and industrial marine industry. However, the proposed solution is inconsistent with broader tax policy considerations.

Therefore, the government will implement a new Structured Financing Facility as an alternative to the accelerated capital cost allowance provision. This new facility, which will be administered by Industry Canada, will provide an equivalent benefit while respecting present tax policy. This measure will provide competitive financing to the industry recognizing the unique challenges that this sector must overcome in the current distorted global marketplace. The new measure will be focused on opportunities and will be forward looking in its application. It will not be used to provide production subsidies or general financial support to individual yards.

CAPITAL COST
ALLOWANCE

WITHHOLDING
TAX

FEDERAL GOVERNMENT
COMMENTS

That the Government of Canada make it a practice not to lose a transaction to a competitor in circumstances where the competitor is offering non-concessionary financing to a creditworthy borrower, whether they are OECD terms, extended terms or Title XI.

That the Government of Canada make it a practice, in the case of direct competition with Title XI financing, to provide the support necessary to the Export Development Corporation to enable it to provide financing equivalent to Title XI.

That the Government of Canada make it a practice, in those cases where the Export Development Corporation is unable to accept the credit risk of a proposed borrower on their own, and where a competitor is likely to do so, to seriously consider approval of the application on a national interest basis.

That the Government of Canada make it a practice, in situations where the amount of financing being considered by the Export Development Corporation (EDC) is less than that being considered by a competitor, to agree to consider enhancing the credit on a national interest basis with a guarantee to fill the gap between the EDC amount and the amount being considered by the competitor. An alternative to a loan guarantee could be a residual value guarantee on the vessel.

That the Government of Canada agree to provide the necessary support to the Export Development Corporation (EDC) in situations where Canada is competing against subsidized shipyards to allow EDC to offer competitive interest rates and maximum financing amounts with up to 20-year re-payment terms.

That the Government of Canada agree to provide the necessary support to the Export Development Corporation to enable it to offer the best possible OECD interest rates and terms in situations where the borrower requests OECD Export Credits.

That the Government of Canada agree to empower the Export Development Corporation with the responsibility of providing extended term financing under its commercial market window to foreign and domestic buyers of Canadian built ships.

That the Government of Canada agrees to streamline processes as appropriate to facilitate prompt processing of applications and quick turnaround.

Export Development Corporation is a self-sustaining Crown corporation mandated to assist Canadian exporters to compete in the international marketplace while maintaining its own financial sustainability. As a commercial Crown corporation, EDC determines the price of its services based on market practices. As a result, in order to maintain its own self-sufficiency, EDC's pricing decisions are made on a case-by-case basis, with consideration to competitive circumstances.

Market window financings are structured on terms and conditions in accordance with commercial practices. As such, EDC already possesses the power to provide market-based export financing for "bankable transactions."

Financing support for both foreign and domestic buyers of Canadian-built ships requires a commercially viable borrower or lessee and a recourse-worthy asset as evidenced by market valuations.

EDC offers financing consistent with its obligations under the OECD consensus. For some transactions support is available under the Canada Account, subject to the approval of Ministers. Canada Account transactions are evaluated on a case-by-case basis and are bound by consensus disciplines.

The government and EDC will continue to take an active role in shaping the development of international disciplines vis-à-vis the use of export credits to ensure that Canadian exporters can compete on a level playing field. In negotiations at the OECD toward a new Export Credit Understanding on Ships, the government is promoting greater flexibility in terms that might include floating interest rates and extended-term financing when justified by market practices.

With respect to Title XI, if financing terms offered under Title XI are consistent with terms generally available for similar transactions in the marketplace and provided that OECD disciplines are respected, EDC is able to consider such terms on a case-by-case basis.

The application process to obtain export credits from EDC is the same for all exporters, whether in the shipbuilding sector or in other sectors. EDC makes every effort to provide prompt, streamlined services on all transactions. However, EDC is open to the consideration of specific recommendations for streamlining processes where appropriate.

ADVISORY COMMITTEE

That the federal and provincial governments work with industry to promote cooperation and support for the industry, and help convey consistent key messages regarding the industry.

That the Minister of Industry takes the lead in coordinating the federal government's role in championing the industry.

That the federal government establish an advisory committee made up of industry and government stakeholders to review, on an ongoing basis, the state of the industry, policy directives and initiatives.

FEDERAL GOVERNMENT
COMMENTS

There is a need for a formal mechanism to provide a forum for regular consultations among stakeholders. The Minister of Industry, with the participation of the industry and other stakeholders, will establish an advisory committee comprised of senior executives of the sector and other stakeholders to strengthen government–industry partnership on an ongoing basis. Greater coordination of the federal government role will be pursued through the establishment of a new organizational unit by Industry Canada.

INDUSTRIAL UNION
MODEL

That provincial and federal governments work with industry to ensure that the industrial union model is the form of union structure required for shipbuilding, offshore and other marine related work sites.

FEDERAL GOVERNMENT
COMMENTS

The Canada Labour Code is the basis for the federal government labour relations strategy. The federal government is committed to ensuring that all sections of the Code are adhered to and respected.

As the shipbuilding and industrial marine industry consists of a strong manufacturing component, much of the industry falls within the jurisdiction of provincial governments. The federal government encourages its provincial counterparts to fully engage all sectors that might be affected by the rules and regulations of the provincial labour code to encourage focus on productivity and innovation.

That the Government of Canada develops and promotes an international social clause concerning labour standards in shipbuilding.

Canada does not support an “international social clause”; that is, the enforcement of core labour standards by placing conditions on trade between countries. Such conditions may be used for protectionist purposes and can undermine the objectives of the 1998 International Labour Organization’s Declaration of Fundamental Principles and Rights at Work. The Declaration obliges ILO member countries to promote and realize core labour standards and has follow-up mechanisms for review and monitoring of global and country progress in meeting Declaration objectives.

SHIPBUILDING LABOUR
STANDARDS

FEDERAL GOVERNMENT
COMMENTS

ANNEX B: INDUSTRY SNAPSHOT

As in many western countries, the past decade has been a difficult one for the Canadian shipbuilding industry. Canadian shipyards have had to adjust to a shrinking domestic market, reduced government procurement and adapt to an international market characterized by overcapacity and market-distorting trade practices. As a result, despite growing global demand, the Canadian industry experienced a long-term decline during the 1990s (Figure 1).

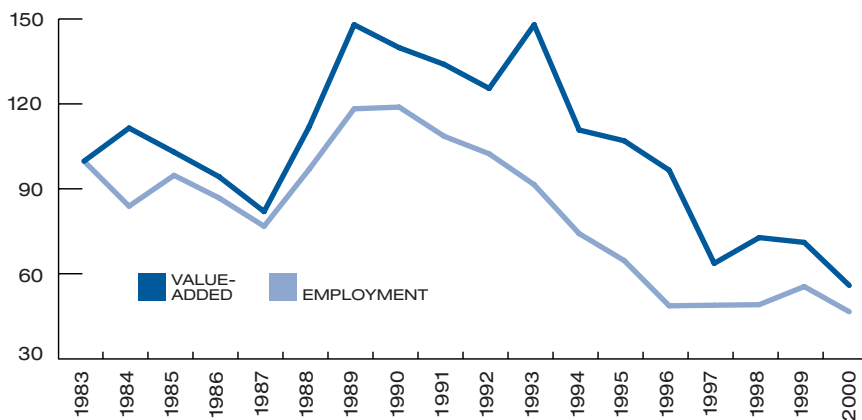
Between 1990 and 2000, value-added in the shipbuilding industry fell at an average annual rate of almost 9 percent per year. In 2000, real value-added in the shipbuilding industry amounted to \$264 million,

representing only 1 percent of the total value-added in the transportation equipment sector, down from 4.4 percent in 1990. The shipbuilding industry employed about 4 700 workers — 1.8 percent of the total workforce engaged in the transportation equipment industry, compared with 5.4 percent in 1990 (see Figure 2 and Table 1).

The decline has slowed in recent years. Real value-added declined at an average annual rate of 4.3 percent a year from 1997–2000 compared with 16.8 percent from 1994–97. Similarly, employment only declined at an average annual rate of 1.6 percent in the 1997–2000 period, down from 12.9 percent in 1994–97.

Figure 1

Trends in Real Value-Added and Employment in Shipbuilding Industry in Canada (Index: 1983=100)



Source: Statistics Canada

Table 1 Shipbuilding Industry Snapshot

	YEAR 2000	SHARE OF TOTAL TRANSPORTATION EQUIPMENT INDUSTRY
Shipments	\$335 million	0.3%
Employment	4700	1.8%
Real value-added (1992\$)	\$264 million	1.0%
Imports	\$555 million	0.6%
Exports	\$137 million	0.1%
Average weekly earnings	Shipbuilding \$890	Manufacturing average \$760

Source: Statistics Canada

Labour productivity and investment intensity increased. Between 1990 and 1998, real output per hour worked expanded at an average annual rate of 3.9 percent in shipbuilding. Machinery and Equipment investment per worker employed and the ratio of Machinery and Equipment investment to output, on average, were about 50 percent higher at the end of 1998 than in 1990.

The industry also moved toward higher value-added products and exports rose significantly. Between

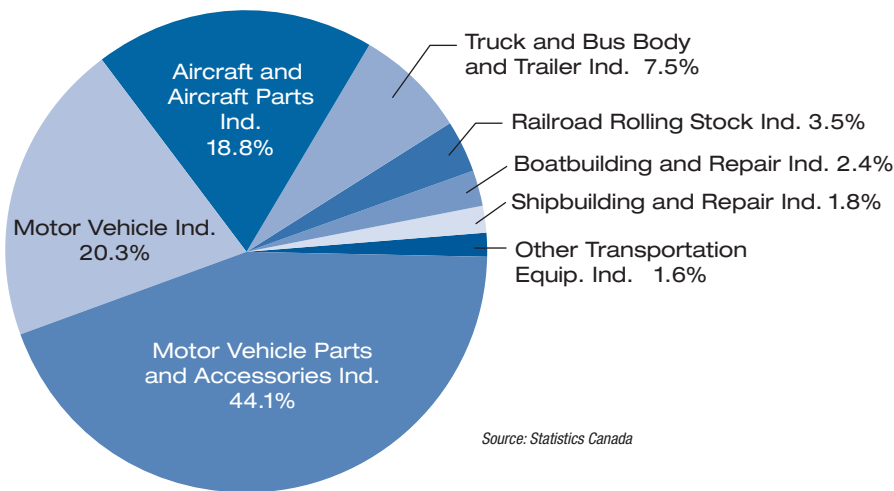
1990 and 2000, shipbuilding exports grew at an average annual rate of 23 percent a year. In 2000, shipbuilding exports totalled \$137 million, up from \$42 million in 1990. As illustrated in Table 2, the United States has been the dominant destination for Canadian shipbuilding exports.

Today, the shipbuilding industry consists of more than 30 shipyards in British Columbia, Ontario, Québec and the Atlantic provinces. Many shipyards are located in small communities, and are important contributors to local economies.

As Table 3 illustrates, Atlantic Canadian yards make up 50 percent of the total national employment in the shipbuilding and industrial marine sector. Yards are currently working on diverse projects such as fishing vessel construction, tugs for the export market, offshore supply vessels, sub-sea component fabrication, and topside module fabrication and commissioning work for the offshore. In addition, Atlantic yards are busy with ongoing ship repair work for various domestic and international clients and with luxury yacht construction for the export market.

Figure 2

Distribution of Employment Transportation Equipment Industries, 2000 (%)



Source: Statistics Canada

Table 2 Shipbuilding Industry Trade, Average 1996–2000

SHARE OF REGIONS IN TOTAL SHIPBUILDING TRADE	IMPORTS	EXPORTS
United States	12.4%	72.7%
South America	–	21.3%
Asia	67.7%	2.2%
European Union	13.4%	1.2%
Others	6.5%	2.6%

Source: Statistics Canada

Québec yards make up 12 percent of the total national employment in the shipbuilding and industrial marine sector. Yards are currently working on projects such as advanced aluminium tug construction, ship repairs and conversions, and sonar domes for the United States Navy. Québec shipbuilders also have experience with fabrication for the offshore oil and gas market.

Yards located in the Great Lakes region account for 13 percent of the total national employment in the shipbuilding and industrial marine sector. Current projects include refitting existing Lakers with new forebodies and state-of-the-art, self-unloading technology, ship repairs and conversions, high-speed patrol boats for export and various vessels for the Canadian Coast Guard. Great

Lakes shipbuilders also have experience in double hulling existing single-hull vessels.

British Columbian yards make up 25 percent of the total national employment in the shipbuilding and industrial marine sector. Yards are currently working on various projects such as cruise ship repairs and conversions, the refit of a naval vessel and barge construction. British Columbia yards have specialized abilities in serving the booming cruise ship market, in ferry construction, tug and barge construction, and luxury yacht building for the export market.

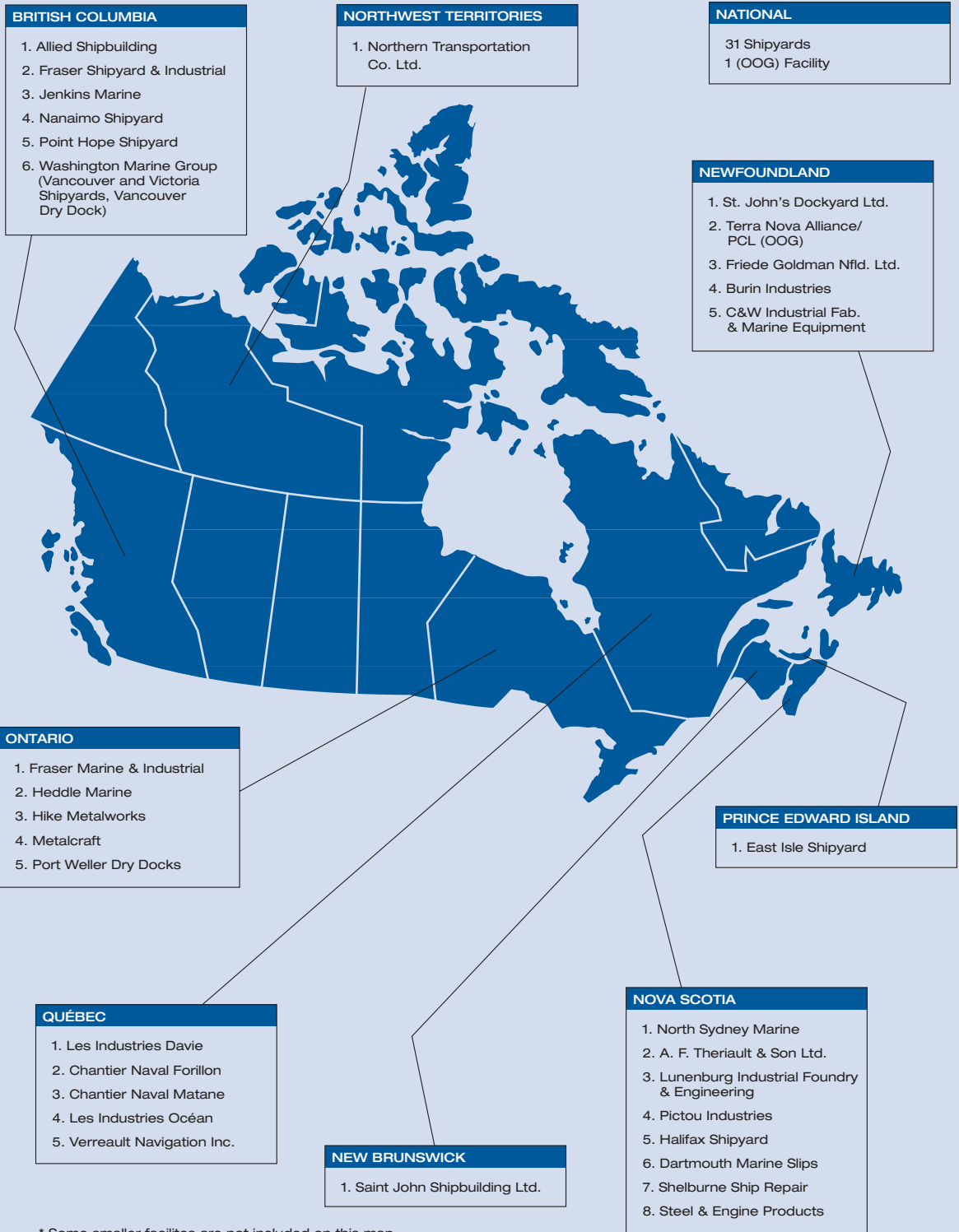
Table 3 Canadian Shipyard Jobs / Capacity Statistics

SHIPYARD	ESTIMATED CURRENT EMPLOYMENT	SHARE OF TOTAL EMPLOYMENT
14 shipyards and 1 offshore oil and gas (OOG) fabrication facility in Atlantic	2315	50%
5 shipyards in Québec	570	12%
5 shipyards in Ontario	632	13%
6 shipyards in British Columbia	1190	25%
1 shipyard in Northwest Territories	N/A	N/A
TOTAL: 32 shipyards, national	4707	

N/A = not available

Source: Industry Canada, estimate based on industry sources, May 2001

Shipbuilding Facilities are Located Throughout Canada



* Some smaller facilities are not included on this map.